WATER AUTHORITY OF WESTERN NASSAU COUNTY
FINANCIAL STATEMENTS
FISCAL YEAR ENDED MAY 31, 2013
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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Water Authority of Western Nassau County

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Water Authority of Western Nassau County
Floral Park, New York

We have audited the accompanying financial statements of the of the Water Authority of Western Nassau County, State of New York, as of and for the years ended May 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Water Authority of Western Nassau County's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Water Authority of Western Nassau County, as of May 31, 2013, and the respective changes in financial position and, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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ADOPTION OF NEW ACCOUNTING PRINCIPLES

As described in Note 1 to the basic financial statements, the Water Authority of Western Nassau County, New York adopted Governmental Accounting Standards Board Statements No. 65, *Items Previously Reported as Assets and Liabilities*, and effective June 1, 2012. Our opinion is not modified with respect to these matters.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Authority of Nassau County's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2013, on our consideration of the Water Authority of Western Nassau County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Authority of Western Nassau County's internal control over financial reporting and compliance.

TABRIZTCHI & Co., CPA, P.C.

Garden City, New York
August 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Water Authority of Western Nassau County (the "Water Authority") was established to provide potable water to portions of western Nassau County that encompass the Incorporated Villages of Bellerose, Floral Park, New Hyde Park, South Floral Park, Stewart Manor and portions of Garden City and Valley Stream. The service area also includes the unincorporated areas of Bellerose Terrace, Elmont, Floral Park, Floral Park Centre, New Hyde Park and portions of Franklin Square and North Valley Stream.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis ("MD&A") serves as an introduction to the basic financial statements and provides supplementary information. The MD&A represents management's examination and analysis of the Water Authority's financial condition and performance. Summary financial statements data, key financial and operational indicators used in the Water Authority's strategic plan, operating plan, bond covenants and other management tools were used for this analysis. The information contained in this analysis should be used by the reader in conjunction with the information contained in the audited financial statements and the notes to those financial statements.

The financial statements report information about the Water Authority. The Water Authority applied full accrual accounting methods as used by similar business activities in the private sector. The statements offer short and long-term financial information. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include the Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows, and the Notes to the Financial Statements.

The Statement of Net Position of the Water Authority reports all assets, deferred outflows of resources, liabilities, deferred inflow of resources, and net position. The Statement of Net Position represents the difference between all other elements in a statement of financial position in three components: net investment in capital assets; restricted (distinguishing between major categories or restrictions) and unrestricted. The Statement of Net Position provides information about the nature and amount of investment in resources (assets) and obligations to the Water Authority's creditors (liabilities) at year-end. It also provides the basis for computing rate of return, evaluating the capital structure of the Water Authority, and assessing the liquidity and financial flexibility of the Water Authority. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The statements of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides information about whether the Water Authority has successfully recovered its costs through its user fees and other charges, its profitability and credit worthiness.

The statement of cash flows presents the changes in cash and cash equivalents resulting from operating, investing, and capital financing and non-capital financing activities. The statements present cash receipts

and cash disbursements information, without consideration of the earning events, when an obligation arises or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Water Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

This section presents management's analysis of the Water Authority's financial conditions and activities for the fiscal years ended May 31, 2013 and 2012. Please read this information in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Management believes the Water Authority's financial condition is strong and improving. The Water Authority is well within its debt covenants and the more stringent financial policies and guidelines set by its Board. The following are financial highlights:

- Total assets as of May 31, 2013 were $90.4 million and exceeded liabilities in the amount of $16.0 million (i.e. net position). Of the total net position, $0.9 million was unrestricted. Total assets increased by $2.5 million (2.9%) between May 31, 2012 and 2013. Net position increased by $2.0 million (14.5%) over the same period last year and the economic and financial position of the Water Authority improved.
- Debt service coverage was 1.39, exceeding the minimum 1.20 required by the Bond covenants.
- Operating revenues were approximately $13.7 million, showing an increase of $0.7 million (5.1%), as compared to $13.0 million in the previous year. The increased revenues from residential water sales of $0.5 million (5.5%) and commercial and fire protection revenues of $0.2 million (4.3%) were related to increased consumption of water.
- Operating expenses increased approximately $0.7 million from $9.2 million to $9.9 million for the fiscal years ended May 31, 2012 and 2013. The 7.7% increase in operating expenses was due to slightly higher operational and depreciation expenses. Operations expenses increased by $0.5 million (8.6%) from $6.2 million to $6.7 million for the fiscal years ended May 31, 2012 and 2013, respectively, primarily from increases in labor costs. Maintenance expenses increased by $0.08 million (4.2%) from $1.8 million to $1.9 million for the fiscal years ended May 31, 2012 and 2013.
- Operating income for the fiscal years ended May 31, 2013 and 2012 were $3.78 and $3.82 million. The decrease in operating income of $0.04 million (1.1%) reflects the rise in operating expense exceeding the increase in operating revenues. As a result of this change, the ratio of operating income to total revenues declined from 32.6% to 29.4%, from the fiscal year ended May 31, 2012 to 2013.
- The Water Authority's long-term bonded debt, including the unamortized bond premiums, decreased by $ 1.7 million (2.4%) during the fiscal year ended May 31, 2013, from $67.6 million at May 31, 2012 to $65.9 million at May 31, 2013, as a result of the repayment of $0.4 million of Series 2010 bonds and $1.1 million of Series 2005 Bonds and amortization of bond premiums.

FINANCIAL ANALYSIS OF THE WATER AUTHORITY

One of the most important objectives of the financial analysis is to determine if the Water Authority as a whole is better or worse off as a result of the year's activities. The Statement of Net Position and the statements of revenues, expenses and changes in net position provide useful information in this regard. The amount of net position, the difference between total assets and liabilities, is a significant measure of the financial health or financial position. Over time, increases or decreases in the Water Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth, and zoning and new or changed government legislation should be considered in evaluating the financial conditions of the Water Authority.

The following comparative condensed financial statements and other selected information serve as the financial data and indicators for management's monitoring and planning.

NET POSITION

A summary of the Water Authority's balance sheets is presented in the following table:

CONDENSED STATEMENT OF NET POSITION (BALANCE SHEETS)

	May 31,			2012 to 2013 Increase (Decrease)		2011 to 2012 Increase (Decrease)	
	2013	2012	2011	Amount	%	Amount	%
Current assets	$ 7,485,682	$ 6,510,592	$ 5,059,778	$ 975,090	15.0	$ 1,450,814	28.7
Noncurrent assets							
Other noncurrent assets	19,077,012	28,979,670	37,989,061	(9,902,658)	(34.2)	(9,009,391)	(23.7)
Capital assets	63,873,372	52,433,616	44,800,607	11,439,756	21.8	7,633,009	17.0
Total assets	90,436,066	87,923,878	87,849,446	2,512,188	2.9	74,432	0.1
Deferred charge on refunding	1,201,753	1,268,612	1,333,204	(66,859)	(5.3)	(64,592)	(4.8)
Total deferred outflows	1,201,753	1,268,612	1,333,204	(66,859)	(5.3)	(64,592)	(4.8)
Current liabilities	6,113,333	4,418,285	4,862,059	1,695,048	38.4	(443,774)	(9.1)
Noncurrent liabilities	3,573,609	3,196,579	2,896,971	377,030	11.8	299,608	10.3
Long-term debt–bonds, net	65,924,806	67,578,373	69,189,683	(1,653,567)	(2.4)	(1,611,310)	(2.3)
Total liabilities	75,611,748	75,193,237	76,948,713	418,511	0.6	(1,755,476)	(2.3)
Net position							
Invested in capital,	14,543,793	11,525,474	11,521,031	3,018,319	26.2	4,443	0.0
Restricted for rate stabilization	560,000	560,000	460,000	-	0.0	100,000	21.7
Unrestricted	922,278	1,913,779	252,906	(991,501)	(51.8)	1,660,873	656.7
Total Net Position	$ 16,026,071	$ 13,999,253	$ 12,233,937	$ 2,026,818	14.5	$ 1,765,316	14.4

The table above and Chart 1 show that the amount of total assets increased by $2,512,188 (2.9%) and total liabilities increased by $418,511 (.6%) from May 31, 2012 to May 31, 2013. The increase in total assets and decrease in total liabilities were $74,432 (0.1%) and $1,755,476 (2.3%), respectively, from May 31, 2011 to May 31, 2012. In 2013, the principal components of changes in assets included the additions to capital assets of $11,439,756 (21.8%) and reduction in other non-current assets, restricted cash and investments, of $9,902,658. The primary reason for a decrease in total liabilities was the repayments of long-term bonds. In 2012 the principal component of decrease in assets was the additions to capital assets. The reason for a decrease in liabilities was the repayments of long-term bonds.

The amount of bonds net of amortized bond premiums decreased by $1,653,567 (2.4%) during fiscal year 2013 as compared to $1,611,310 (2.3%) in 2012. The increase in fiscal year 2013 reflects the payment of that year's debt requirements offset by the amortization of premium and loss.

The net position of the Water Authority increased by $2,026,818 (14.5%), in the fiscal year ended May 31, 2013 as compared to an increase of $1,765,316 (14.4%), in the fiscal year ended May 31, 2012. The changes in net position are the results of operating incomes of $3,778,788 and $3,819,482, and the excesses of non-operating expenses over non-operating incomes of $1,751,970 and $2,054,166, in the fiscal years ended May 31, 2013 and 2012, respectively.

CHART 1

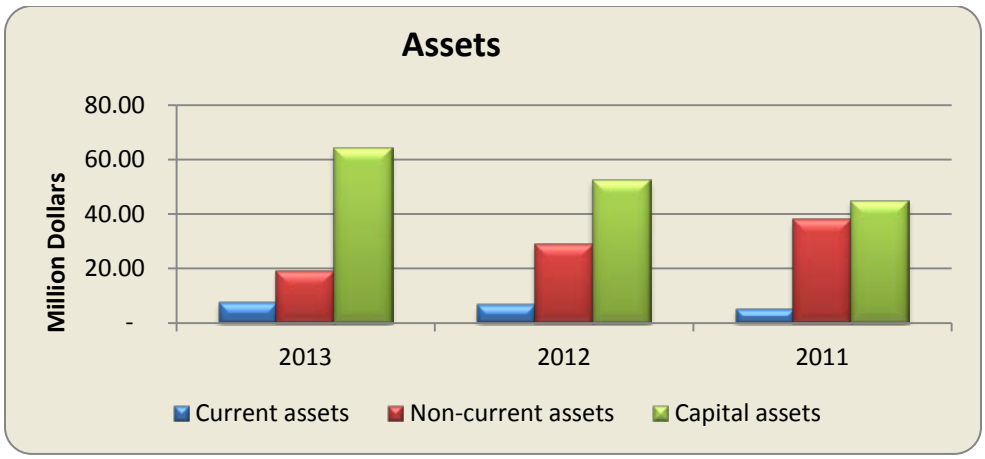
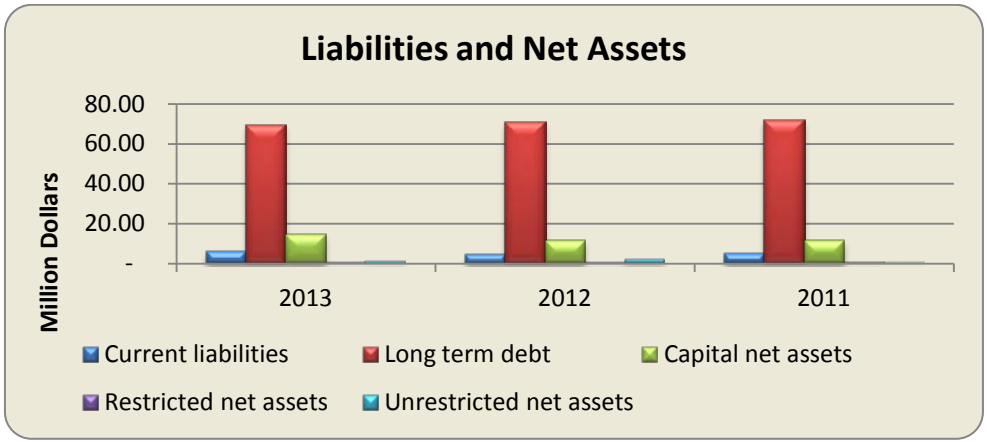


CHART 2



The decrease in unrestricted net position was $991,501 (51.8%), in the fiscal year ended May 31, 2013, as compared to an increase of $1,660,873 (656.7%), in the fiscal year ended May 31, 2012. The increase in the unrestricted net position represented 96.3% of the total increase in net position, in the fiscal year ended May 31, 2012. The net position restricted for rate stabilization has not changed, to comply with the Bond covenants that require a minimum of 21.7% of the previous year revenues to be kept in the Rate Stabilization restricted cash. The net position invested in capital increased by $3,019,319 (26.2%) from $11,525,474 on May 31, 2012 to $14,543,793, on May 31, 2013.

OPERATING RESULTS

The Water Authority's condensed statements of revenues, expenses and changes in net position are presented in the following table:

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	May 31,			2012 to 2013 Increase (Decrease)		2011 to 2012 Increase (Decrease)	
	2013	2012	2011	Amount	%	Amount	%
Water sales:							
Residential	$ 9,715,394	$ 9,208,976	$ 9,382,910	$ 506,418	5.5	$ (173,934)	(1.9)
Commercial, Municipal and other	3,941,453	3,779,491	3,818,169	161,962	4.3	(38,678)	(1.0)
Total operating Revenues	13,656,847	12,988,467	13,201,079	668,380	5.1	(212,611)	(1.6)
Operating expenses							
Operations	6,682,648	6,154,917	5,972,061	527,731	8.6	182,856	3.1)
Maintenance	1,924,246	1,845,803	1,871,302	78,443	4.2	(25,499)	(1.4)
Depreciation	1,271,165	1,168,265	1,051,110	102,900	8.8	117,155	11.1
Total operating expenses	9,878,059	9,168,985	8,894,473	709,074	7.7	274,512	3.1
Operating income	3,778,788	3,819,482	4,306,606	(40,694)	(1.1)	(487,123)	(11.3)
Non-Operating revenue (expense)							
Interest income	904,317	247,852	536,218	656,465	264.9	(288,366)	(53.8)
Miscellaneous income	375,320	357,310	349,509	18,010	5.0	7,801	2.2
Interest on long-term debt	(3,007,607)	(2,624,800)	(2,853,926)	(382,807)	14.6	229,126	(8.0)
Other amortization, net	(24,000)	(34,528)	(45,322)	10,528	(30.5)	10,794	(23.8)
Net non-operating expenses	(1,751,970)	(2,054,166)	(2,013,521)	302,196	(14.7)	(40,645)	2.0
Change in net position Before extraordinary Items	2,026,818	1,765,316	2,293,085	261,502	14.8	(527,759)	(23.0)
Litigation settlement	-	-	11,466	-	-	(11,466)	100.0
Change in total net Position	2,026,818	1,765,316	2,304,551	261,502	14.8	(539,226)	(23.4)
Net position, beginning	13,999,253	12,233,937	9,929,386	1,765,316	14.4	2,304,551	23.2
Net position, ending	$ 16,026,071	$ 13,999,253	$ 12,233,937	$ 2,026,818	14.5	$ 1,765,316	14.4

OPERATING REVENUES AND EXPENSES

The Water Authority provides water treatment and distribution to a population estimated at 120,000, approximately equal to 10% of Nassau County's total population. The authority's customer base is diverse with no significant customer concentration. It benefits economically from its proximity to New York City. Limited growth is expected because the towns served have little free area for new development.

As of May 31, 2013, the Water Authority provided water to 26,411 residential customers, 1,368 commercial customers, 192 private fire customers and 2,432 municipal fire hydrants. The corresponding figures for May 31, 2012 were 26,432 residential customers, 1,385 commercial customers, 190 private fire customers and 2,432 municipal fire hydrants.

The Water Authority's revenues increased by $668,380 (5.1%), in fiscal year ended May 31, 2013, as compared to a decrease of $212,611 (1.6%) in the fiscal year ended May 31, 2012. The increase in revenue in fiscal year 2013 was the result of a $506,418 (5.5%) increase in residential water sales and $161,962 (4.3%) in commercial and fire protection sales (see Chart 3).

The Lloyd, Magothy and Upper Glacial aquifers provide the Water Authority with a high quality water supply that requires minimal treatment. Storage facilities along with existing well fields provide ample pumping capacity (46 million gallons per day [mgd]) in relation to actual demand (8.6 mgd). The water system is compliant with all applicable permits and regulatory standards.

The total operating expenses before depreciation increased by $606,174 (7.6%) and increased $157,357 (2.0%) in fiscal years ended May 31, 2013 and 2012, respectively (see Chart 4). The operations expenses increased by $527,731 (8.6%), from $6,154,917, in the fiscal year ended May 31, 2012, to $6,682,648, in the fiscal year ended May 31, 2013. The change in operations expense was primarily the result of a rise in labor and benefits costs, along with an increase in the costs of power and chemicals. The maintenance expenses were, $1,924,246 and $1,845,803, in the fiscal years ended May 31, 2013 and May 31, 2012, respectively, showing an increase of $78,443 (4.2%). The increase in contractor costs for the maintenance of our pumping equipment, treatment equipment and service lines offset by a decrease in labor costs was the primary reason for the rise in maintenance costs. The additional investment in capital assets increased the depreciation expenses by $102,900 (8.8%) and $117,155 (11.1%) in the year ended May 31, 2013 and 2012 as compared to the previous year, respectively.

As a result of changes in revenues and expenses, the Water Authority's net position increased by $2,026,818 during fiscal year 2013 as compared to a $1,765,316 increase in fiscal year 2012, an increase of $262,904 (14.9%).

CHART 3

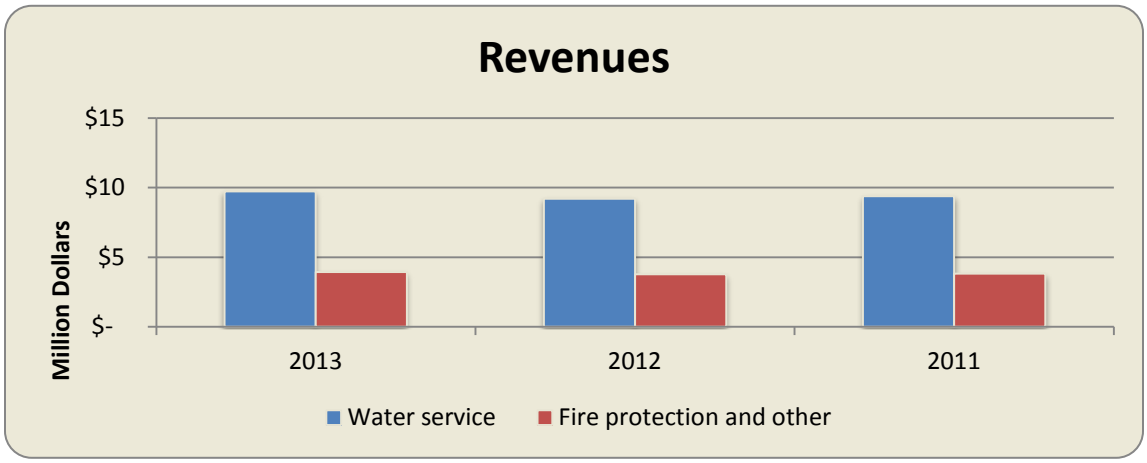
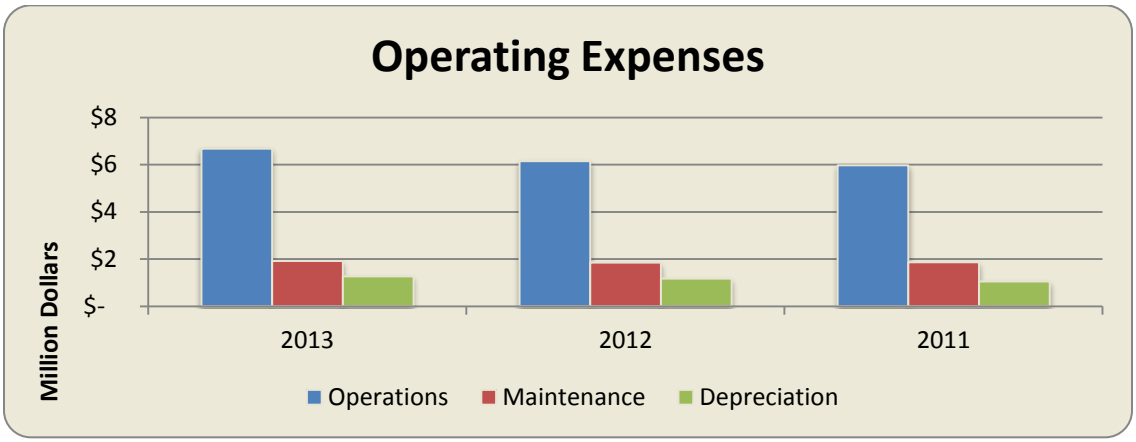


CHART 4



NON-OPERATING REVENUES AND EXPENSES

Non-operating revenue includes interest earnings on investment assets and miscellaneous income. Interest income increased from $247,852 for the fiscal year ended May 31, 2012 to $904,317, for the fiscal year ended May 31, 2013. The reason for the increase of $656,465 (264.9%) was due to higher amount of the unexpended proceeds of the Series 2010 Bond invested in money market funds and the US Treasury Bonds, Notes and Bills.

Miscellaneous income increased by $18,010 (5.0%) from $357,310 for the fiscal year ended May 31, 2012 to $375,320 for the fiscal year ended May 31, 2013. This increase was due to additional rental income realized from the lease of space atop water towers to cellular phone companies.

Interest expenses increased by $382,807 (14.6%) from $2,624,800 for the year ended May 31, 2012 to $3,007,607, for the year ended May 31, 2013. The increase resulted from the change in interest costs for the bonds issued during 2010 and 2005. The amount of interest capitalized during the construction of capital assets were $781,500 and $418,686, in the fiscal years ended May 31, 2013 and 2012, respectively.

CAPITAL ASSETS

The Water Authority owns and maintains a broad range of infrastructure items including water plants, water lines, well stations, administrative facilities, vehicles and equipment necessary for the treatment and distribution of potable water to its customers. The Water Authority has approximately $63.9 million in capital assets, an increase of approximately $11.5 million (21.8%) from the prior year.

Capital assets consisted of the following for the years ended May 31:

	2013	2012	2011
Land	$ 167,708	$ 167,708	$ 167,708
Construction in progress	22,509,705	11,537,141	5,336,146
Wells and standpipes	2,705,737	2,657,422	2,654,054
Pumping and purification	11,234,460	11,230,913	11,075,237
Distribution system	36,782,613	35,492,957	34,006,838
Building, vehicles and	2,795,575	2,645,900	2,252,971
Total capital assets	76,195,798	63,732,041	55,492,954
Accumulated depreciation	(12,322,426)	(11,298,425)	(10,693,347)
Net capital assets	$ 63,873,372	$ 52,433,616	$ 44,799,607

For more detailed information on capital assets activity, please refer to the financial statements Note 4 – Property, Plant and Equipment.

MAJOR INCREASES IN CAPITAL ASSETS

The new capital plan covers the anticipated projects for the fiscal years 2014-2019. The total plan amount is $48.8 million and will be financed by the issuance of the 2010 Series A and B Bonds and a proposed new financing. The capital plan includes the completion of the construction of the new headquarters at the estimated cost of $4.5 million. The balance of proposed spending is aimed primarily at improvements to the treatment system of $39.5 million and repair and replacement of transmission and distribution lines of $5.2 million.

IRON REMOVAL PROJECT

The Board of Directors awarded the contracts for the construction of Iron Removal Facilities at Station Nos. 28 (Elmont) and 30 (Franklin Square) on April 25, 2011. These facilities remove the naturally occurring iron that is in the groundwater which is supplied to Elmont and parts of Franklin Square and Valley Stream. The construction of the plant in Franklin Square (Station No. 30) is nearing completion and it will treat one well. The construction of the other plant in Elmont (Station No. 28) was completed in 2012 and treats water from three wells. One of the wells at the Elmont site is a high capacity well which was out of service for over 15 years due to high levels of iron.

The new Iron Removal Facilities will remove the naturally occurring iron and manganese that exists in the groundwater which is currently supplied to Elmont and portions of Franklin Square, North Valley Stream

and Valley Stream. The process to remove the iron from the groundwater is Direct Pressure Filtration. The groundwater is pumped to multiple pressure vessels which contain a combination of sand and anthracite media to remove the iron. The iron removal treatment system has been designed to provide effluent iron levels of less than 0.1 mg/l, which is one third (1/3) of the 0.3 mg/l secondary standard for iron. The Iron Removal Facilities at Station Nos. 28 and 30 are designed to treat 3.73 and 1.73 million gallons per day, respectively.

MAJOR ADDITIONS AND COMPLETED PROJECTS

The Water Authority is presently completing the construction of the new headquarters building located at 1580 Union Turnpike, New Hyde Park, New York. This project is being constructed on an owned, active well station and will eliminate over $330,000 per year in lease cost, property taxes and maintenance at our current location in Floral Park.

The major additions of completed projects put into service to the capital assets in the fiscal years ended May 31, 2011, 2012 and 2013 are presented in the following table:

Description	2013	2012	2011
Mains	$ 533,633	$ 581,324	$ 1,632,282
Services	405,336	483,645	821,815
Hydrants	218,381	206,745	243,462
Electric Pumping Equipment	705	45,655	54,560
Water Treatment Equipment	2,843	106,720	266,189
Meters and Meter Equipment	344,052	703,616	1,037,351
Office Equipment	15,604	113,063	-
Vehicles	43,411	146,640	-
Wells and Springs	48,315	-	-
Miscellaneous Equipment	126,062	207,079	-
Total additions	$ 1,738,342	$ 2,594,487	$ 4,055,659

The major cost outlays with respect to capital assets relate to improvements in the Water Authority's water distribution system. The Water Authority spent $533,633 for the completed construction and placement of water mains during the fiscal year ended May 31, 2013 compared to $581,324 for the same period ended May 31, 2012. The Water Authority spent $344,052 related to the installation of meters and radio transmitters for those meters during the fiscal year ended May 31, 2013 compared to $703,616 for the same period ended May 31, 2012.

In the Water Authority's capital expenditures plan, $952,000 is allocated for transmission and distribution, $4,828,000 is allocated for treatment & SCADA and $1,022,000 for other capital improvements.

LONG-TERM DEBT

REVENUE SERIES 2005 BONDS

On May 28, 1996 the Water Authority issued $34,460,000 Water System Revenue Bonds, Series 1996 to finance the cost of acquisition and certain construction expenditures of the water system, including initial working capital of the Water Authority and the costs of the utility assets and additional improvements to the water system.

The $33,875,000 Water System Revenue Bonds, Series 2005 (the "Series 2005 Bonds") were applied to:

1. advance refund Water Authority's outstanding Water System Revenue Bonds, Series 1996,
2. finance the cost of acquisition and construction of improvements to the Water System,
3. fund a deposit to the Reserve Account, Series 2005,
4. pay certain costs of issuance relating to the Series 2005 Bonds.

The bond proceeds, in part, provided sufficient money to effect the advance refunding of the existing Series 1996 Bonds. Simultaneously with the issuance of the Series 2005 Bonds, a portion of the proceeds, together with other available moneys, was used to purchase non-callable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States of America (the "Federal Securities"), in an amount sufficient, together with the interest to accrue thereon, to pay the principal of, redemption premium and interest on the Refunded Bonds, as the same become due and payable.

The Federal Securities were deposited with an escrow agent (the "Escrow Agent") under a certain escrow agreement (the "Escrow Agreement") with the Water Authority to be applied solely to the payment of the principal, redemption premium and interest on the Refunded Bonds, as the bonds became due and payable. Pursuant to the Escrow Agreement, the Escrow Agent redeemed the Refunded Bonds on May 1, 2006 at a redemption price of 102% plus accrued interest.

The outstanding principal, maturities and interest rates of the Series 2005, are as follows:

WATER REVENUE BONDS, SERIES 2005
OUTSTANDING PRINCIPALS
May 31, 2013

Bond		Amount
Serial Bonds 3.00% - 5.00%, due through 2026	$	21,210,000
Term Bonds 5.00%, due 2030		2,015,000
Term Bonds 5.00%, due 2035		3,150,000
Total Series 2005	$	26,375,000

REVENUE SERIES 2010 BONDS

The Water Revenue Bonds, Series 2010 were dated April 1, 2010 and issued on April 15, 2010, with accrued interest. The Series 2010 Revenue Bonds include the Water System Revenue Bonds, Series 2010A, with aggregate principal balance of $6,925,000, and, Series 2010B, federally taxable, Build America Bonds, with aggregate principal balance of $33,965,000.

The Series 2010A Bonds were issued to finance costs of acquisition, improvements and additions to the water system, to fund a deposit to the Reserve Account, and to pay certain costs of issuance relating to the Series 2010A Bonds. The Series 2010B Bonds were issued to finance the cost of acquisition, improvements and additions to the water system, including the construction of the Water Authority's headquarters, to fund a deposit to the Reserve Account, and to pay certain costs of issuance relating to the Series 2010B Bonds.

The sources and uses of the Water System Revenue Bonds, Series 2010, are shown in the table below:

WATER REVENUE BONDS, SERIES 2010
SOURCES AND USES OF FUNDS

	Series 2010A Amount	Series 2010B Amount	Total
Source of Funds			
Principal amount of bonds	$ 6,925,000	$ 33,965,000	$40,890,000
Net premium	106,875	-	106,875
Total Sources	$ 7,031,875	$ 33,965,000	$40,996,875
Use of Funds			
Project fund	$ 6,234,361	$ 30,227,639	$36,462,000
Debt service reserve fund	692,500	3,340,180	4,032,680
Bond insurance cost	35,294	-	35.294
Costs of issuance	69,720	394,068	463,788
Additional proceeds	-	3,113	3,113
Total Uses	$ 7,031,875	$ 33,965,000	$40,996,875

The outstanding balances, maturities and interest rates of the Series 2010 Bonds are as follows:

2010 REVENUE BONDS
OUTSTANDING PRINCIPALS
May 31, 2013

Bond	Amount
Water Revenue Bonds Series 2010	
Serial Bonds A 2.00% - 4.00%, due through 2020	$ 5,770,000
Term Bonds B 6.00% - 6.70%, due through 2040 *	33,965,000
Total Series 2010	$ 39,735,000

** Note: Effective rate of 4.1% to 4.35% after 35% interest rebate in accordance with American Recovery Reinvestment Act of 2009.*

During the fiscal years ended May 31, 2013, the amounts of principal and interest paid were $1,550,000 and $2,997,786 respectively, as compared to $1,505,000 and $2,629,950 in principal and interest paid during May 31, 2012.

The Water Authority plans to go out for new financing to fund future construction plans. The increases in the net position of the Water Authority are expected to improve the current leverage. On February 17, 2012, Fitch Investors Services, Inc. affirmed the Water Authority's Bond rating at 'AA- with its outlook as stable.

In February 2010, the Water Authority was given a rating of “A3” on its Series 2010 Water System Revenue Bonds by Moody’s Investor Service. In April 2010, the Water Authority received from Fitch Ratings a rating of “AA-“.

Reclassification and Restatement of Bond Issuance Costs and Refunding Loss

In the year ended May 31, 2013, the Water Authority opted for the early adoption of the Government Accounting Standards Board’s Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and accordingly restated all previous financial statements presented. For the Series 2005 Bonds, the bond issuance costs of $363,319 was reclassified as expense and the prepaid bond insurance costs of $149,459 was reported as an asset in the statement of net position, as of May 31, 2006. Also, For the Series 2010A and Series 2010B Bonds, bond issuance costs of $463,787 was reclassified as expense and the prepaid insurance costs of $35,294 was reported as an asset in the statement of net position, as of May 31, 2011. Prepaid insurance costs are recognized as an expense in a systematic manner over the duration of the related bonds.

According to Government Accounting Standards Board Statement No. 65, the net loss on refunding related to the issuance of Series 2005 Bonds was reclassified and reported as a deferred outflow of resources in the statements of all periods presented. It is also recognized as a component of interest expense in a systematic manner over the shorter remaining life of the Bonds.

Cash Available for Coverage:

One indicator of the Water Authority’s financial strength and future borrowing capability is its debt coverage ratio, which was 1.39 times for fiscal year ended May 31, 2013 as shown below.

Operating income	$	3,778,788
Add:		
Depreciation		1,271,165
Interest and other income		1,279,637
Total cash available for coverage		6,329,590
Debt service requirements:		
Interest payments		2,997,786
Principal payments		1,550,000
Total debt service requirements	$	4,547,786
Coverage Ratio		1.39
Coverage requirement as per Water System Revenue Bonds, Series 2010 and 2005		1.20

The Water Authority's cash flows from operations increased by $736,680, from $5,592,910 in 2012 to $6,329,590, in 2013. The decreases in operating income from sales revenue and the litigation settlement were the reason for the decrease in cash flows from operations. The amount of $17,338,504 was expended for the acquisition of capital assets and payment of related debt service charges.

For more detailed information on long-term debt activity, please refer to the financial statements Note 5 – Revenue Bonds Payable.

CASH AND INVESTMENTS

The total amounts of unrestricted and restricted cash, cash equivalents and investment in the US Treasury Securities were $22,707,541 and $32,035,473, on May 31, 2013 and 2012, respectively. The decrease of $9,327,932 (29.1%) in restricted cash and investment was primarily the result of acquiring additional capital assets and paying off $1,550,000 of bonds. The acquisition of new capital assets is also reflected in the decrease of $10,062,027 (52.1%), in Bond Construction Fund cash, cash equivalents and investment, which changed from $19,661,314, on May 31, 2012 to $9,599,287, on May 31, 2013. To increase the availability of funds for construction, the Water Authority increased the proportion of the Construction Funds held in cash and equivalents, from 42%, on May 31, 2011, to 49%, on May 31, 2012 and to 60%, on May 31, 2013.

The amount of cash, cash equivalents and investment in Bond reserve funds increased by $105,697 (1.5%), from $6,899,056 on May 31, 2012 to $7,004,753, on May 31, 2013. The increase in Bond reserve funds was $174,198 (3%), in the previous year.

On May 31, 2013, the cash and cash equivalents of $17,376,907, included $4,318,014 (24.9%) of unrestricted and $13,057,893 (69.1%) restricted amounts. Cash equivalents included $7,680,440 invested in Dreyfus Government Prime Cash Management 557 Fund, $337,856 invested in Dreyfus Government Cash Management 566 Fund and $2,446,315 of short-term the US Treasury bills. Dreyfus money market funds invest only in the securities of the US government or the US government agencies and enterprises. The amount of restricted investments was $5,331,633, of which 95.1% was invested in Treasury Notes and 4.9 % in the US Treasury Bonds

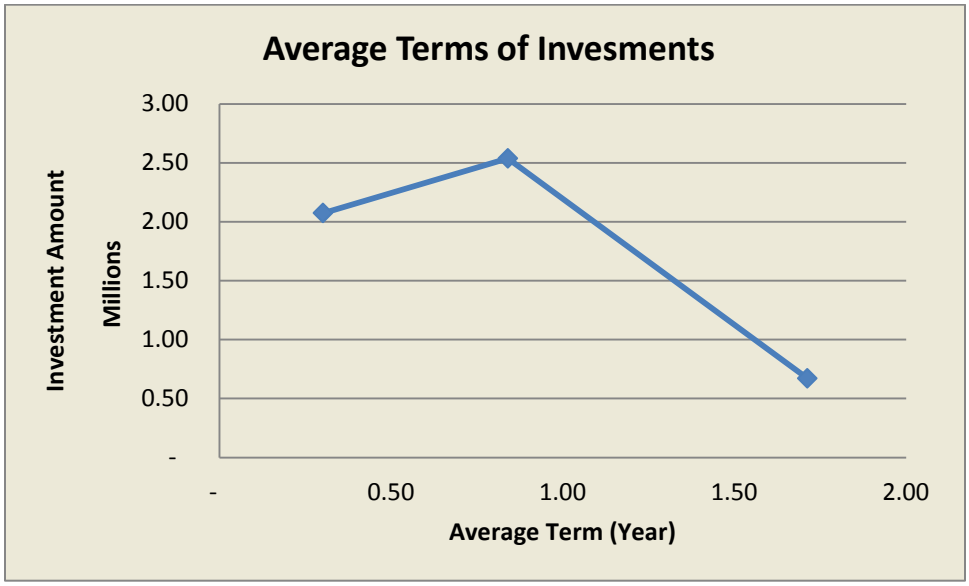
As of May 31, 2013, the maturities of investment in the Water Authority's US treasury securities were as follows:

Maturity date		Fair	Percent of	Average
From	To	Value	Total	Term (Year)
6/1/2013	12/31/2013	$ 2,074,430	39%	0.30
1/1/2014	6/30/2014	2,537,924	48%	0.84
7/1/2014	2/15/2015	670,975	13%	1.71
		$ 5,283,330	100%	0.71

The total restricted investment was $5,331,634 and was composed of $5,283,330 of investments at fair market value, plus $48,304 accrued interest. The investments included $5,070,163 of the US Treasury Notes and $261,471 of the US Treasury Bonds, which were held in the Bond construction and Bond Reserve funds as follows:

Restricted investments held by trustee		
Bond construction fund	$	3,811,774
Bond reserve fund		1,519,860
Total restricted investments held by trustee	$	5,331,634

CHART 5



The Water Authority's investment strategy is designed to eliminate the default risk and to maximize interest income by matching the maturities of the investments with the cash requirements of construction activities. The strategy minimizes the risk of having to liquidate the investment to pay construction under unfavorable market interest conditions. All of the Water Authority's investments are in the US Treasury Notes and Bonds with maturities of less than two years and the overall weighted average maturity term of 1.0 years. The weighted average market yield of total investment was 3.84%, as of May 31, 2013. All deposits were with a major national bank and were insured by FDIC or collateralized over 102% by the securities held by the bank of New York Mellon under a tri-party collateral agreement.

ECONOMIC FACTORS AND NEXT YEAR'S PLAN AND RATES

The Water Authority's Board of Directors and Management considered many factors when setting the fiscal year 2013 plan, user fees and charges. The Water Authority's service area population is approximately 120,000. The Water Authority presently has over 28,000 accounts in western Nassau County, of which about 94% are residential. Commercial and fire protection constitute most of the remainder. The Water Authority's customer base has mirrored Nassau County's population. According to the 2012 the US Census Bureau estimates, Nassau County's population was 1,339,532. That was a 0.4%

increase from the 1,334,546 residents in 2000. The population breakdown by towns within Nassau County for 2010 and 2000 is as follows:

NASSAU COUNTY	2010 (a)	2000 (b)
Town of North Hempstead	221,315	220,491
Town of Hempstead	759,185	756,360
City of Long Beach	35,615	35,482
Town of Oyster Bay	296,680	295,576
City of Glen Cove	26,737	26,637
TOTAL NASSAU COUNTY	1,339,532	1,334,546

a. Source: 2010 United States Census
b. Source: 2000 United States Census

Several indicators including unemployment rates in Nassau County and changes in the consumer price index for the New York – Northern New Jersey – Long Island area were considered by the Water Authority's management in developing the operating plan of the Water Authority for the fiscal year ended May 31, 2013.

The unemployment rate in Nassau County has continued to be lower than national and State of New York averages. The average unemployment rates in the County of Nassau decreased from 7% to 6% from May 2012 to May 2013. The unemployment rate in the County of Nassau remained below the rates in the City of New York, State of New York and the United States as a whole. The unemployment rates for the City of New York, State of New York and United States an a whole were 8.3%, 7.6%, and 7.6% respectively in May 2013 as compared to 9.5%, 8.6%, and 8.2% in May 2012.

During the year ended May 31, 2013, prices in the New York-Northern New Jersey-Long Island area, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), increased 1.4 percent, and the index for all items less food and energy rose 1.9 percent. Over the year, the food index rose 0.7 percent. At-home food prices increased 0.3 percent, and away-from-home food prices rose 1.3 percent. The energy prices decreased 1.5 percent. A 5.8-percent decline in gasoline prices outweighed increases of 1.3 percent for electricity and 11.9 percent for natural gas.

From May 2012 to May 2013, the index for all items less food and energy increased 1.9 percent. Prices for shelter rose 2.2 percent, and residential rent increased 3.1 percent. Medical care prices posted a 2.8 percent increase, and recreation prices advanced 1.2 percent.

In May, the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) was 252.259, up 0.1 percent over the month. The CPI-W increased 1.3 percent over the year.

For the fiscal year ending May 31, 2014, the operating revenues are estimated to be $14 million and operating expenses $10 million. Non-operating revenues and expenses are estimated to be $1.3 and $3.5 million respectively. The increase in net position is estimated to be approximately $2 million. Capital expenditures are planned to be $11.3 million. The projects in the planned capital expenditures include the

continued improvement to the pumping, treatment, and transmission & distribution systems along with the completion of the construction of the new headquarters building.

CONTACTING THE WATER AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide readers with a general overview of the Water Authority's finances and to show the Water Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Water Authority's Superintendent at 58 South Tyson Avenue, Floral Park, New York, 11001.

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
STATEMENT OF NET POSITION
MAY 31,

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 4,318,014	$ 3,730,917
Accounts receivable:		
Billed, net of $25,000 allowance for doubtful accounts	535,186	405,653
Unbilled	2,241,000	1,950,000
Prepayments and other current assets	137,527	205,510
Materials and supplies, at weighted average cost	253,955	218,512
Total current assets	7,485,682	6,510,592
Noncurrent assets:		
Restricted cash and cash equivalents		
Rate stabilization fund	560,000	560,000
Bond construction fund	5,787,513	9,705,309
Bond reserve fund	5,484,893	2,046,961
Bond payment fund	234,875	234,874
Customer deposits	990,612	949,312
Restricted investments held by trustees		
Bond construction fund	3,811,774	9,956,005
Bond reserve fund	1,519,860	4,852,095
Capital assets		
Non-depreciable	22,757,373	11,704,849
Depreciable	41,115,999	40,728,767
Other assets		
Unamortized bond issue cost	149,558	156,375
Other assets	537,927	518,739
Total noncurrent assets	82,950,384	81,413,286
Total assets	$ 90,436,066	$ 87,923,878
Deferred Outflows of Resources		
Deferred charges on refinancing	1,201,753	1,268,612
Total deferred outflow of resources	1,201,753	1,268,612

The accompanying notes to the financial statements are an integral part of these statements.

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
STATEMENT OF NET POSITION
MAY 31,
(continued)

	2013	2012
Liabilities and Net position		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,301,160	$ 1,492,758
Deferred revenue	568,843	662,014
Accrued interest payable	383,460	388,747
Customer advance on construction	100,370	180,166
Water revenue bond payable	1,595,000	1,550,000
Due to employee retirement system	124,500	104,600
Accrued vacation and sick leave	40,000	40,000
Total current liabilities	6,113,333	4,418,285
Noncurrent liabilities:		
Water revenue bonds payable	64,515,000	66,110,000
Unamortized premium on revenue bonds	1,409,806	1,468,373
Customer deposits	1,050,528	1,009,232
Other post employment benefits	1,734,981	1,408,447
Accrued vacation and sick leave	788,100	778,900
Total noncurrent liabilities	69,498,415	70,774,952
Total liabilities	75,611,748	75,193,237
Net Position		
Netinvestment in capital assets	14,543,793	11,525,474
Restricted for rate stabilization	560,000	560,000
Unrestricted	922,278	1,913,779
Total net position	$ 16,026,071	$ 13,999,253

The accompanying notes to the financial statements are an integral part of these statements.

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED MAY 31,

	2013	2012
Operating revenues:		
Residential	$ 9,715,394	$ 9,208,976
Commercial	1,760,453	1,700,729
Fire protection	2,109,979	2,019,112
Other water revenues	71,021	59,650
Total operating revenues	13,656,847	12,988,467
Operating expenses:		
Operations	6,682,648	6,154,917
Maintenance	1,924,246	1,845,803
Depreciation	1,271,165	1,168,265
Total operating expenses	9,878,059	9,168,985
Operating income	3,778,788	3,819,482
Non-operating revenues (expenses):		
Interest income	904,317	247,852
Miscellaneous income, net	375,320	357,310
Interest on long-term debt, net	(3,007,607)	(2,624,800)
Other amortization, net	(24,000)	(34,528)
Net non-operating expenses	(1,751,970)	(2,054,166)
Change in net position before extraordinary items	2,026,818	1,765,316
Litigation settlement	-	-
Net change in total net position	2,026,818	1,765,316
Net position - beginning	13,999,253	12,233,937
Total net position - ending	$ 16,026,071	$ 13,999,253

The accompanying notes to the financial statements are an integral part of these statements.

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED MAY 31,

	2013	2012
Cash flows from operating activities:		
Receipts from customers	$ 13,236,314	$ 13,056,986
Payments to suppliers for goods or services	(2,287,306)	(3,829,599)
Rental property revenues	375,320	357,310
Payments for employee services	(4,218,072)	(4,195,909)
Net cash provided by operating activities	7,106,256	5,388,788
Cash flows from capital and related financing activities:		
Repayment of water revenue bonds	(1,550,000)	(1,505,000)
Acquisition of capital assets	(12,790,718)	(9,162,672)
Interest paid on water revenue bonds	(2,997,786)	(2,629,950)
Net cash used by investing activities	(17,338,504)	(13,297,622)
Cash flows from non-capital financing activities:		
Cash flows from investing activities:		
Decrease of fixed income securities	9,476,466	5,111,390
Interest and dividends received	904,316	247,853
Net cash provided in financing activities	10,380,782	5,359,243
Net increase (decrease) in cash and cash equivalents	148,534	(2,549,591)
Cash and equivalents, beginning of year	17,227,373	19,776,964
Cash and equivalents, end of year	$ 17,375,907	$ 17,227,373

The accompanying notes to the financial statements are an integral part of these statements.

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED MAY 31,
(continued)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 3,778,789	$ 3,819,483
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,271,165	1,168,265
Rental Income	375,320	357,310
Changes in operating assets and liabilities:		
Accounts receivable	(129,533)	8,906
Accrued unbilled revenue	(291,000)	(153,000)
Prepaid expenses and other assets	67,983	7,263
Inventory of materials and supplies	(35,442)	5,640
Other assets	(43,187)	(2,462)
Accounts payable and accrued expenses	1,808,402	28,887
Deferred revenues	(93,171)	(107,237)
Due to employee retirement system	19,900	(43,875)
Customer deposits	41,296	37,116
Other post employment benefits	326,534	255,492
Compensated absences	9,200	7,000
Net cash provided by operating activities	$ 7,106,256	$ 5,388,788

Non-cash transactions: None.

The accompanying notes to the financial statements are an integral part of these statements.

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MAY 31, 2013

NOTE 1 – ORGANIZATION

The Water Authority of Western Nassau County ("the Water Authority") was established on July 25, 1990, pursuant to the "Water Authority of Western Nassau County Act," of the State of New York, as amended on July 31, 1992 and codified under Title 8-C of Article 5 of the Public Authorities Law. As a governmental agency constituting a public benefit corporation, the Water Authority was created for the purpose of acquiring, constructing, maintaining and operating a water supply and distribution system within the territorial boundaries of the Water Authority of Western Nassau County District ("the District").

On May 28, 1996, the Water Authority, by exercise of the power of eminent domain, acquired the water supply and distribution system situated in the District previously owned by Jamaica Water Supply Company. The District serves a population of approximately 120,000 within the Town of Hempstead and the Town of North Hempstead. The Town of Hempstead component includes the incorporated villages of Bellerose, Floral Park, New Hyde Park, South Floral Park, Stewart Manor and portions of Garden City and Valley Stream. The area within the Town of Hempstead also includes the unincorporated areas of Bellerose Terrace, Elmont and portions of Franklin Square and North Valley Stream. The area within the Town of North Hempstead includes the unincorporated areas of Floral Park, Floral Park Centre and New Hyde Park.

The Water Authority is governed by a Board of Directors consisting of nine members who are accountable to their constituents for their actions. The town board of the Town of Hempstead appoints two members and the town board of the Town of North Hempstead appoints one member to the Board. The village boards of the Villages of Bellerose, Floral Park, Garden City, New Hyde Park, South Floral Park and Stewart Manor each appoint a single member to the Board. Each member serves for a period of two years. The number of votes of each Board member is proportional to the number of water customers in the town or village that appoints them.

Under the Government Accounting Standards Board ("GASB") Statement No. 14, The Financial Reporting Entity, and Statement No. 39, Determining Whether Certain Organizations Are Component Units, the Water Authority is classified as a primary government agency with no component units. The classification is based on the following criteria: (1) it has a separately appointed governing body; (2) pursuant to its charter, the Water Authority is a legally separate and distinct entity from the State of New York, the County of Nassau and the Towns and Villages that appoint its Board of Directors and (3) neither the State of New York nor any of its municipal entities are financially accountable or liable for the indebtedness of the Water Authority. The Water Authority determines its operating plan, sets rates and issues bonded debt without approval by another government entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Water Authority have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Water Authority applies all applicable pronouncements of GASB as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of Financial Accounting Standards Board ("FASB"), Opinions of the Accounting Principles Board and the Accounting Research Bulletins of the Committee on Accounting Procedure of the American Institute of Certified Public Accountants. In accordance with GASB Statement No. 20, the Water Authority has elected not to apply FASB pronouncements issued after November 30, 1989 and exclusively applies GASB Statements and Interpretations.

The activities of the Water Authority are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred. The flow of economic resources refers to the reporting of all the net position available to the Water Authority for the purposes of providing related water services. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) and associated activities are reported and equity is reported as net position.

Basis of accounting refers to when revenues, expenses, transfers and the related assets and liabilities are recognized and reported in the financial statements. Specifically, it relates to the timing of the measurements made regardless of the nature of the measurement.

The Water Authority uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred. Proprietary-type accounting also distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing water services and producing potable water for the service area in connection with the Water Authority's principal ongoing operations. The principal operating revenues of the Water Authority are charges to customers to provide potable water service. Other ancillary fees and services related to providing water are also recognized as operating revenues. Operating expenses include the cost of service, administration and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The Water Authority has adopted the provisions of Government Accounting Standard Board (GASB) Statement No. 34*, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. These statements established reporting standards for all state and local governments which include Statement of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows and inclusion of Management's Discussion and Analysis.

The Statement of Net Position of the Water Authority reports all assets, deferred outflows of resources, liabilities, deferred inflow of resources, and net position. The Statement of Net Position represents the difference between all other elements in a statement of financial position in three components: net investment in capital assets; restricted (distinguishing between major categories or restrictions) and unrestricted. The Statement of Net Position provides information about the nature and amount of investment in resources (assets) and obligations to the Water Authority's creditors (liabilities) at year-end. It also provides the basis for computing rate of return, evaluating the capital structure of the Water Authority and assessing the liquidity and financial flexibility of the Water Authority. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The Statement of Net Position requires the classification of net position into three components as described on the next page.

1. *Net investment in capital assets*– This component of net position consists of capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets. Deferred outflows of resources and deferred inflow of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources, at the end of the period, the portion of the debt or deferred inflow of resources attributable to unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.
2. *Restricted* – The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflow of resources related to those assets. Generally, a liability relates to the restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted asset reported. This component of net position consists of restrictions placed on net position as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net position* – The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Water Authority considers all highly liquid investments with maturity of three months or less, when purchased, to be cash equivalents. The Statement of Cash Flows presented uses the direct method of reporting cash flows.

Under the Bonds Covenants, the Water Authority maintains its cash and cash equivalents in the Water Revenue Fund, General Fund and Operating Fund. The Water Authority pays into the Water Revenue Fund all of the revenues and all other moneys required to be paid into the fund other than the revenues and other amounts expressly required or permitted to be credited to, or deposited in, any other fund

account. Cash in the General Fund may be used for any lawful purpose of the Water Authority. All reasonable and necessary operations and maintenance expenses are paid from the Operating Fund.

Restricted Cash, Cash Equivalents and Investments held by Trustee

Restricted cash, cash equivalents and investments are held in the following funds:

Rate Stabilization Fund – This is a fund maintained by the Water Authority. Money deposited into the Rate Stabilization Fund is used in the following order:

1. To the extent provided in the current operating plan, money should be credited to or transferred to any other fund or account created under resolution.
2. Transferred to the bond fund trustee for deposit in the Bond Fund to ensure that there are no deficiencies in payments to the Bond Fund.
3. Transferred to the bond fund trustee for deposit in the Secondary Bond Fund to ensure that there are no deficiencies in payments to the Secondary Bond Fund.
4. Transferred to Unrestricted – Operating.

The amount of Rate Stabilization Fund cash and cash equivalents was $560,000 as of May 31, 2013.

Bond Construction Fund – In accordance with the bond resolution, money deposited in the Bond Construction Fund from the proceeds of the Water System Revenue Bonds, Series 2005 and Series 2010 are restricted to the cost of improvements or the replacement of the water system. The Bond Construction Fund is to be maintained in trust and held by the fund trustee. The total amount in the Bond Construction Funds at May 31, 2013 was $9,599,287 of which $3,680,159 was in cash and cash equivalents and the balance of $5,919,128 was invested in fixed income US Treasury Notes.

Bond Reserve Funds – Under the Series 2005 and 2010 Resolutions, the Water Authority is required to deposit into the Reserve Accounts, Series 2005, Series 2010A and Series 2010B the lesser of (i) 10% of the proceeds of the Series 2005, Series 2010A and Series 2010B Bonds, (ii) the maximum principal and interest payments due on the Series 2010A Bonds and Series 2010B Bonds in any Fiscal Year, (iii) 125% of the average of the annual installments of Debt Service with respect to all Series 2005, Series 2010A and Series 2010B Bonds for the current and all future Fiscal Years, and (iv) the maximum permitted by federal tax law to be funded from bond proceeds.

The Bond Reserve Funds are to be maintained in trust and held by the fund trustee. Amounts in the Reserve Accounts are available to pay debt service when insufficient funds for that purpose are available in the Bond Fund. The deposits in the Reserve Funds that the Water Authority is required to maintain are $2,500,000, $692,500 and $3,340,180 from the proceeds of the Series 2005, Series 2010A and Series 2010B Bonds.

As of May 31, 2013, the total amount of Bond Reserve Funds was $7,004,753 of which $5,484,893 (78.3%) was in cash and cash equivalents and $1,519,860 (21.7%) was invested in fixed income US Treasury Notes and bonds. The Water Authority considers the expected changes in treasury yield curve in determining the optimal allocation of its debt reserve funds between cash and cash equivalents and investments.

Bond Payment Fund – The Water Authority's bond resolution authorizing the Water System Revenue Bonds, Series 2005, and Series 2010 bond issues has established the Bond Payment Fund. The Bond Fund is to be maintained in trust and held by the fund trustee. The Bond Fund is comprised of two separate fund accounts including the Bond Principal and Interest Fund. All money deposited in the Bond Fund is used solely for the purpose of paying the principal and interest on the bonds. As of May 31, 2013, the amount in the Bond Fund cash and cash equivalents was $234,875.

Investment Securities — Investments are reported at fair value in the financial statements. Fair value is the amount in which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an investment, the fair value is the total number of trading units of the instrument times the market price per unit. All investment income, including changes in fair value of investments is recognized as non-operating revenue in the operating statement.

Accrued Unbilled Revenues

Accrued unbilled revenues represent revenue earned in the current year but not yet billed to customers until future days, usually within three months, based on the estimated billings occurring in the three months of the succeeding year. Historical trend are used to estimate accrued unbilled revenues.

Accounts Receivable

Accounts receivable is net of an allowance for doubtful accounts of $25,000 at May 31, 2013 and 2012. The allowance is estimated based on trends in historical collection rates and write-offs.

Prepaid Expenses

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Statement of Net Position.

Materials and Supplies

Materials and supplies inventory is valued at weighted average cost, which approximates market.

Capital Assets

Capital assets are defined by the Water Authority as assets with an initial individual cost of more than $500 and an estimated useful life in excess of one year. Capital assets are carried at cost to the Water Authority. Improvements, renewals purchased or contributed property, replacements of retired units of property and significant repairs inclusive of materials, labor and certain overhead that extend the life of the asset are capitalized while minor repairs and maintenance costs are expensed as incurred.

Depreciation is provided on the straight-line basis using the following estimated useful lives for each asset type:

Capital Asset	Useful Life Years
Distribution system	35 - 105
Wells and standpipes	40 - 60
Pumping and purification	20 - 50
Other property and equipment	5 - 10

When assets are retired or otherwise disposed of, the related assets and accumulated depreciation is written off and any related gains or losses are recorded.

Capitalization of Interest during Construction

The Water Authority capitalizes the interest cost during the construction of capital assets according to Financial Accounting Standards Board's Accounting Standards Codification Paragraph 835-20-30-10 through 835-20-30-12.

The amount of interest cost capitalized for qualifying assets is that portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided if expenditures for the assets had not been made. The amount capitalized in an accounting period is determined by applying the capitalization rate to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period is based on the rates applicable to borrowings outstanding during the period. If the Water Authority's financing plans associate a specific new borrowing with a qualifying asset, the Water Authority uses the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing.

Interest earned is not to be offset against interest cost in determining either capitalization rates or limitations on the amount of interest cost to be capitalized except in situations involving acquisition of qualifying assets financed with the proceeds of tax-exempt borrowings if those funds are externally restricted to finance acquisition of specified qualifying assets or to service the related debt.

The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted as specified in the preceding paragraph shall be the interest cost of the borrowing less any interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings from the date of the borrowing until the assets are ready for their intended use. The interest cost and interest earned on any portion of the proceeds of the tax-exempt borrowings that are not designated for the acquisition of specified qualifying assets and servicing the related debt are excluded.

The Water Authority has adopted GASB Statement No. 62*, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued in December 2010, has fully incorporated the interest capitalization rules of ASC 835. The adoption of GASB Statement No. 62 did not have any effect on the financial statements.

Long-term Obligations

In the financial statements long-term debt is reported as a liability in the Statement of Net Position. Long-term debt is reported at face value less any loss on defeasance and plus or minus applicable premium or discount, respectively.

Bond premiums and bond discounts are deferred and amortized over the life of the bonds in relation to principal payment over the life of the issue. The costs related to the insurance on long-term debt and the loss on the early retirement of refunded debt is amortized in relation to principal repayment over the life of the issue.

The amortization expense of bond insurance costs were $6,816 and $8,036 and the amortization of bond discount was $24,000 and $24,492 for the fiscal years ended May 31, 2013 and 2012, respectively.

Deferred Revenues

The deferred revenues include advance payments by customers and charges for future repairs. The Water Authority recognizes the amounts charged as liabilities and credits them to revenue only when associated costs are incurred.

Other Postemployment Benefits

In addition to providing pension benefits, the Water Authority provides health insurance coverage for eligible retired employees. Substantially all the Water Authority's employees may become eligible for these benefits provided the employee has a minimum of ten years full time employment with the Water Authority, has obtained 55 years of age and has terminated employment with the Water Authority within five years from the date on which entitled to a retirement allowance from the New York State and Local Employees Retirement System.

The Water Authority's Board of Directors adopted a resolution dated September 17, 2002, as amended November 9, 2009, that provides eligible enrollees with post retirement medical insurance coverage, limited to the health insurance programs offered by the Water Authority to its then full-time employees, as modified from time to time by the Board of Directors of the Water Authority.

The Water Authority recognizes the cost of providing benefits by recording its share of insurance premiums as expenditures in the year paid. The liability for these other postemployment benefits is recorded as a long-term liability in the Statement of Net Position and is estimated based on the most recent actuarial valuation in accordance with the parameters of GASB Statement No. 45.

Accrued Vacation and Sick Leave

In the event of termination or upon retirement, employees are entitled to receive accumulated but unused vacation and sick leave at various rates subject to certain maximum limitations pursuant to policies adopted by the Board of Directors.

The liability for vested or accumulated vacation or sick leave (compensated absences) is recorded as current and noncurrent obligations on the Statement of Net Position. The current portion of this liability is

estimated based on historical trends. In the Statements of Revenues, Expenses and Changes in Net Position only the compensated absence liability payable from available financial resources is incurred.

Retirement Plan

The Water Authority provides retirement benefits for substantially all of its regular, full-time employees through contributions to the New York State and Local Employees' Retirement System. The system provides various plans and options, and all full-time employees are required to join the plan.

Revenue Recognition

Revenues from water sales are recognized at the time of service delivery based on actual or estimated water meter readings. Billings for water service are generally rendered on a quarterly basis except for one consumer, which is billed monthly due to the requirements of a legal settlement. The Water Authority's Board of Directors has the power to independently set rates and charges, which are sufficient to meet its obligations, and is not subject to the regulation of any department or commission, including the New York State Public Service Commission.

Operating and Non-operating Revenues and Expenses

Operating revenues and expenses are related to operating transactions. The operating transactions are those other than capital and related financing activities, noncapital financing activities and investing activities. Operating revenues generally result from sales of water, grants for production and delivery of water, and reimbursement of operating expenses. Operating expenses include depreciation on all fixed assets. Non-operating revenue includes interest earnings on investment assets and miscellaneous income. Non-operating expenditures include interest expense on long-term debt.

Taxes

As a Public Benefit Corporation, the Water Authority is exempt from federal and state income taxes, as well as state and local property taxes.

Deferred Inflows of Resources/Deferred Outflows of Resources

The GASB has issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. In compliance with GASB 63, the Statement of Net Assets has been renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The GASB has also issued Statement 65, Items Previously Reported as Assets and Liabilities, clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement is effective for periods beginning after December 15, 2012, although the Water Authority has elected early implementation with the financial statements for the year ended May 31, 2013.

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has

only one item that qualifies for reporting in this category – the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred over the shorter of the life of the refunded or refunding debt.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating and Capital Plans

The Water Authority adopts annual operating and capital plans. Plans are adopted on a basis consistent with generally accepted accounting principles. The current operating plan details the Water Authority's plans to earn and expend funds for charges incurred for operations, maintenance, certain interest and other charges for the fiscal year. The capital plan details the Water Authority's plan to receive and expend capital contribution fees and revenues for improving and expanding capital facilities.
All unexpended or encumbered appropriations in the operating plan remaining at the end of the fiscal year lapse. No appropriations for capital projects in the capital plan lapse until the purpose for which the appropriation was made, has been accomplished or changed.

Management submits a proposed plan to the Water Authority's Board of Directors prior to the commencement of the next fiscal year. A plan is adopted by resolution prior to June 1. During the year, the Board of Directors has to authorize the transfer of planned amounts between line items.

New Accounting Pronouncements

In March 2012, the Governmental Accounting Standards Board (GASB) issued two Statements: Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*

GASB Statement No. 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. Debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred. Prepaid insurance costs are reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Under GASB Statement No. 66, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement modifies the specific guidance on accounting for operating lease payments that vary from a straight-line basis, the difference between the initial investment and the principal amount of a purchased loan or group of loans, and servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate.

The provisions of Statements no.65 and 66 are effective for periods beginning after December 15, 2012. The Water Authority chose the early adoption of the GASB Statements No. 65 and 66 and accordingly restated the prior period financial statements presented.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented.
The provisions of Statement 67 are effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer is required to recognize a liability for its proportionate share of the net pension liability of the collective net pension liability, on a basis that is consistent with the manner in which contributions to the pension plan are determined. The employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

In the notes to financial statements, the employers should identify the discount rate, assumptions made in the measurement of their proportionate shares of net pension liabilities and disclose information about how their contributions to the pension plan are determined. Also, the employer should disclose as Required Supplementary Information (RSI) 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, statutorily or contractually required contributions and related ratios.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The water Authority is evaluating the impact of the adoption of GAS statements No. 67 and 68 on its financial statements.

In January 2013, GASB issued Statement No. 69 Government Combinations and Disposals of Government Operations. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations and require measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. The notes to the financial statements should disclose information about government combinations and disposals of operations to enable the reader to evaluate the nature and financial effects of those transactions.

The provisions of Statement 69 are effective in financial reporting periods beginning after December 15, 2013. The adoption of this statement does not affect the financial statements of the Water Authority.

In April 2013 GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred.

The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013. Earlier application is encouraged. The adoption of this statement does not affect the financial statements of the Water Authority.

NOTE 3 –CASH, CASH EQUIVALENTS AND INVESTMENTS

As of May 31, 2013, the carrying amount petty cash, cash and cash equivalents and investment in cash equivalent and other investment consisted of the following:

Petty cash	$	700
Cash and cash equivalents		17,375,907
Investments		5,331,633
Total	$	22,708,240

Cash and Cash Equivalents

As of May 31, 2013, the carrying amount of the Water Authority's deposits, cash and cash equivalents were as follows:

Unrestricted		
Deposit in banks	$	2,209,959
Money Market Funds		2,107,355
Petty cash		700
Total unrestricted cash and cash equivalents		4,318,014
Restricted		
Bank Deposit		1,042,670
Money Market Funds and US Treasury Bills		12,015,223
Total restricted cash and cash equivalents		13,057,893
Total cash and cash equivalents	$	17,375,907

Custodial Credit Risk – All cash deposits of the Water Authority are required to be insured by the Federal Deposit Insurance Corporation ("FDIC") or to be secured by obligations of, or guaranteed by, the United States of America or of the State of New York of a market value equal at all times to the amount on deposit and all banks and trust companies are authorized to give such security for such deposits.

In the case of time and interest bearing deposits, there is a risk that in the event of a bank failure, the Water Authority's deposits may not be returned. Section 330.15 of the FDIC regulations (12 CFR 330.15) governs the insurance coverage of public unit accounts. All time deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to $250,000. Separately, all interest bearing demand deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to $250,000.

For the period from December 31, 2010 through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) provided separate and unlimited deposit insurance coverage for accounts that meet the definition of a 'noninterest-bearing transaction account.

The Water Authority's cash accounts are secured by the appropriate amount from the FDIC with all remaining amounts covered by fully pledged collateral securities, at over 102% of the amounts on deposit. All pledged collateral are classified in the highest category by being held by the Bank of New York Mellon under a tri-party collateral agreement in the Water Authority's name.

Investments

Investments Authorized by the State of New York and Bond Resolutions. Pursuant to the Bond Resolution, the Water Authority may only invest moneys on deposit in various funds established under the resolution in certain investment securities. In addition, and in accordance with the requirements of the State of New York Public Authorities Law, the Water Authority has adopted comprehensive investment guidelines which govern the investment of all moneys of the Water Authority. These guidelines provide that moneys on deposit with the Water Authority may only be invested in:

1. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America ("USA").
2. Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the USA or any other corporation wholly owned by the USA.
3. Public housing bonds or preliminary, temporary or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions, under an annual contributions contract, or contracts with the USA or any federal agency.
4. Direct and general obligations of any State or political subdivision of State, as to the payment of the principal of and interest on which the full faith and credit of the issuer is pledged and at the time of their purchase, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies.
5. Bank time deposits evidenced by certificates of deposit and bankers' acceptances issued by any bank or trust company which is a member of the FDIC.
6. Obligations consisting of notes, bonds and debentures which are direct obligations of a solvent corporation existing under the laws of the USA or any state thereof, provided that such investments shall be rated in the two highest rating categories established by at least two nationally recognized bond rating agencies.

7. Certificates or other obligations of the USA or any state, political subdivision, agency or instrumentality of the USA or any state or political subdivision. It is required that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a Bond Fund Trustee under the Bond Resolution. Certificates or other obligations of a state or political subdivision, the payments of all principal of, and interest on such certificates or such obligations, shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Moody's Investors Service, L.P. ("Moody's") and either Standard & Poor's Corporation ("S&P") or Fitch Investors Service, Inc. ("Fitch"), or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Moody's and either S&P or Fitch.
8. Written investment agreements, rated or the issuer of which is rated, in one of the two highest rating categories by at least two nationally recognized rating agencies, and if rated by Moody's, S&P or Fitch, such investment agreements or the long-term unsecured debt obligations of the insurer thereof must be rated in one of the two highest rating categories by the respective agency rating such investment agreements.
9. Money market funds registered under the Investment Company Act of 1940, as amended, the investment portfolios of which are comprised solely of investments in obligations described in items 1, 2 and 3 above, and which money market funds are rated in one of the two highest rating categories by the respective agency rating such money market funds.

Disclosures Relating to Credit Risk – There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Any moneys of the Water Authority not required for immediate use or disbursement may, at the discretion of the Water Authority, be invested in those obligations specified pursuant to the provisions of Section 98(a) of the State Finance Law and the Bond Resolution with respect to the Water Authority's Water System Revenue Bonds, Series 2010 and 2005 Bonds.

In addition, there is the risk of loss attributed to the magnitude of the Water Authority's investment in a single issuer. Given the relative safety of those investment instruments that the Water Authority can purchase, the policies of the Water Authority do not place a limit on the amount that may be invested in any one issuer. As of May 31, 2013, the Water Authority's investment, including the investment in cash equivalents was as follows.

	Fair Value	S&P-AAAm Moody's-Aaa-mf NAIC-Class 1	US Treasury Securities
Dreyfus Government Prime Cash management 557	$ 7,680,440	$ 7,680,440	$ -
Dreyfus Cash Management #566	337,856	337,856	-
US Treasury Bills	2,446,315		2,446,315
US Treasury Notes	5,070,163		5,070,163
US Treasury Bonds	261,471		261,471
Total	$ 15,796,245	$ 8,018,296	$ 7,777,949

At May 31, 2013, all Water Authority funds were invested in credit risk free US Treasury Securities and money market funds with highest credit rating. The money market funds are managed by Dreyfus Corporation, a BNY Mellon Company. Dreyfus Government Prime Cash Management 557 fund invests in securities issued or guaranteed as to the timely payment of principal and interest by the U.S. Government, or its agencies or instrumentalities. The fund does not invest in repurchase agreements or any other type of money market instrument or security. Dreyfus Government Cash Management 566 fund investments are in securities issued by the U.S. Government or its agencies and repurchase agreements related to the U.S. Government securities. The investment in the money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

Interest Rate Risk – When investing idle funds, there is the risk that changes in interest rates will adversely affect the fair value of that investment. The Water Authority currently has an investment policy that limits its exposure to fair value losses by establishing maturity timeframes that meet the cash flow requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. On May 31, 2013, the maturity dates of the Water Authority's investment securities were as follows:

		Fair Value	12 Months or Less	13 to 21 Months
Dreyfus Government Prime Cash Management 557	$	7,680,440	7,680,440	
Dreyfus Cash Management 566		337,856	337,856	
US Treasury Bills		2,446,315	2,446,315	
US Treasury Notes		5,070,163	314,057	4,756,106
US Treasury Bonds		261,471	-	261,471
Total	$	15,796,245	$ 10,778,668	$ 5,017,577

The Weighted Average Maturity of Dreyfus Government Prime Cash Management 557 and Dreyfus Cash Management 566 have been very short, less than 60 days. The yield from money market funds may vary, although they haven't in the past year, and is not fixed for a specific period. A sharp and unexpected rise in interest rates could cause the share price to drop below a dollar. However, the extremely short maturities of the securities held in the portfolio reduce the potential for price fluctuation. Also, the yields of US Treasury securities' and money market funds will fluctuate as the short-term securities in the Water Authority portfolio mature and the proceeds are reinvested in securities with different interest rates.

Custodial Risk of Investments

Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Water Authority's investments are held by the Bank of New York Mellon as the trustee and custodian.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

As of May 31, 2012 and 2011, the cost and the accumulated depreciation of the property, plant and equipment were as follows:

	2012	Increase	Decrease	2013
Capital assets not subject to depreciation:				
Land and land rights	$ 167,708	$ -	$ -	$ 167,708
Construction in progress	11,537,141	10,972,564	-	22,509,705
Total capital assets not being depreciated	11,704,849	10,972,564	-	22,677,413
Capital assets in service being depreciated:				
Wells and standpipes	2,657,422	48,315	-	2,705,737
Pumping and purification	11,230,912	3,548	-	11,234,460
Distribution system	35,492,958	1,501,402	(211,748)	36,782,612
Building, vehicles and equipment	2,645,900	185,093	(35,418)	2,795,575
Total capital assets being depreciated	52,027,192	1,738,358	(247,166)	53,518,384
Less accumulated depreciation for:				
Wells and standpipes	(983,219)	(63,586)	-	(1,046,805)
Pumping and purification	(4,115,888)	(523,359)	211,748	(4,427,499)
Distribution system	(4,048,155)	(572,273)	35,418	(4,585,010)
Building, vehicles and equipment	(2,151,163)	(111,948)	-	(2,263,111)
Total accumulated depreciation	(11,298,425)	(1,271,166)	247,166	(12,322,425)
Total net capital assets being depreciated	40,728,767	467,192	-	41,195,959
Total net capital assets	$ 52,433,616	$ 11,439,756	$ -	$ 63,873,372

As of May 31, 2013 and 2012, the amounts of capitalized interest included in construction in progress were $781,500 and $418,686, respectively.

NOTE 5 – REVENUE BONDS PAYABLE

On August 4, 2005 the Water Authority issued $33,065,000 Water System Revenue Bonds, Series 2005 in part to provide sufficient funds to affect the advanced refunding of 1996 Series bonds. The interest on the refunding bonds ranges from 2.84% to 5.30% (average interest of 3.7%) and the bonds were issued at a premium of $1,642,140. The $28,155,000 remaining balance of the Water Authority's outstanding Series 1996A bonds had interest rates ranging from 5.65% to 6.43% (average interest of 5.6%). Simultaneously with the issuance of the Series 2005 Bonds, $28,758,320, the amount of $27,900,000

from the proceeds of the sale of the Series 2005 Bonds together with other available moneys, were used to purchase non-callable direct obligations of the USA. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the May 1, 2006, redemption of the bonds, at a redemption price of 102% plus accrued interest. As a result, $28,225,000 of Series 1996A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The bond issuance costs of $512,778 were paid from bond proceeds. The unamortized bond issue costs and discount on Series 1996A bonds were $646,742 and $593,990, respectively.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $2,230,412. The Water Authority completed the refunding to reduce its total debt service payments over the next 30 years to obtain an economic gain (difference between the present values of the old and new debt service payments) of $2,314,315.

On April 15, 2010, the Water Authority issued its Series 2010 Revenue Bonds. The Series 2010 Revenue Bonds include the Water System Revenue Bonds, Series 2010A (the "Series 2010A Bonds"), with aggregate principal balance of $6,925,000, and Water System Revenue Bonds, Series 2010B (the "Series 2010B Bonds"), federally taxable, Build America Bonds, with aggregate principal balance of $33,965,000. The Bonds were issued pursuant to the water system revenue bonds General Resolution adopted by the Water Authority on May 13, 1996 and the supplemental Series 2010 Resolution adopted on January 25, 2010. The Series 2010 Bonds are the third and fourth Series of Bonds (as that term is defined herein) to be issued under the General Resolution.

The Series 2010A Bonds were issued to finance costs of acquisition, improvements and additions to the water system, to fund a deposit to the Reserve Account, and to pay certain costs of issuance relating to the Series 2010A Bonds. The Series 2010B Bonds were issued to finance the cost of acquisition, improvements and additions to the water system, including the construction of the Water Authority's headquarters, to fund a deposit to the Reserve Account, and to pay certain costs of issuance relating to the Series 2010B Bonds The Series 2010 Bonds, which are issued as Senior Lien Bonds, are the third and fourth Series of Bonds issued under the General Resolution. The Series 2010 Bonds are payable as to both interest and principal solely from the net revenues on a parity with other outstanding Bonds.

The General Resolution requires the Water Authority to establish rates and other charges for the water that will be sufficient in each fiscal year to produce revenues (with deposits from Rate Stabilization Fund) that will be at least equal to: (i) the fiscal year's debt service and reserve fund replenishment obligations, operation and maintenance expenses (including amounts to be deposited to the Rate Stabilization Fund), and any other charges or liens; (ii) 1.20 times the debt service for such Fiscal Year.

The Water Authority has elected to treat the Series 2010B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") and to receive a cash subsidy from the US Treasury in connection therewith. Pursuant to the Recovery Act, the Water Authority is entitled to receive cash subsidy payments rebating a portion of the interest on the Build America Bonds from the US Treasury equal to 35% of the interest payable on the Series 2010B Bonds. The Water Authority will use this subsidy exclusively to pay interest on the Series 2010B Bonds.

The Series 2010A Bonds are not subject to redemption prior to maturity. The Series 2010B Bonds are subject to Make-Whole and Extraordinary Redemption at the option of the Water Authority.

Make-whole Redemption

The Series 2010B Bonds are subject to redemption, in whole or in part, prior to their stated maturities, on any date. The redemption price is equal to the greater of:

(i) 100% of the principal amount of such Series 2010B Bonds to be redeemed, plus accrued and unpaid interest, or
(ii) The sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption at the Treasury Rate plus 30 basis points. "Treasury Rate" is the yield to maturity of the Treasury Issue, with equivalent maturity.

Extraordinary Redemption

The Series 2010B Bonds are subject to redemption prior to maturity at the option of the Water Authority, in whole or in part, on any date following the occurrence of an “Extraordinary Event”, at redemption price equal to the greater of:

(i) 100% of the principal amount of such Series 2010B Bonds to be redeemed, plus accrued and unpaid interest, or
(ii) The sum of the present values of the remaining scheduled payments of principal and interest on such Series 2010B Bonds to be redeemed discounted to the date of redemption on a semiannual basis at the Treasury Rate plus 100 basis points.

An "Extraordinary Event" occurs if the 35% cash subsidy payment from the US Treasury to the Water Authority is reduced or eliminated as a result of change in provisions of Internal Revenue Code of 1986 pertaining to Build America Bonds or determination by the Internal Revenue Service or the US Treasury that the Bonds do not qualify to receive the subsidy.

The Series 2010B Bonds maturing on April 1, 2025, 2030 and 2040 are subject to mandatory redemption prior to their stated maturity in part on each April 1 on and after April 1, 2021, 2026 and 2031, respectively. The Bonds will be redeemed from moneys required to be credited to the Bond Retirement Account in the Bond Fund at a redemption price equal to the principal amount to be redeemed, together with interest accrued on such principal amount to the date fixed for redemption.

A summary of changes in Revenue Bonds Payable for the year ended May 31, 2013 is as follows:

	May 31, 2012	Decreases	May 31, 2013	Due in one year	Noncurrent portion
Water System Revenue Bonds payable	$ 67,660,000	$ (1,550,000)	$ 66,110,000	$ 1,595,000	$ 64,515,000
Adjustment for deferred amounts:					
Unamortized premium on 2005 Series	1,374,564	(57,600)	1,316,964	-	1,316,964
Unamortized premium on Series 2010A	93,809	(967)	92,842	-	92,842
Total Revenue Bonds	$ 69,128,373	$ (1,608,567)	$ 67,519,806	$ 1,595,000	$ 65,924,806

The outstanding Water System Revenue Bonds at May 31, 2013 consist of the following:

Bond	Maturity Date	Interest Rate	Average Interest Rate	Original Principal	Outstanding Principal
Water System Revenue Bonds, Series 2005:					
Serial Bonds	2008-2010	3.00-5.00%	3.70%	$27,900,000	$21,210,000
Term Bonds	2016	5.00%	5.00%	2,015,000	2,015,000
Term Bonds	2026	5.00%	5.00%	3,150,000	3,150,000
Total Series 2005				$33,065,000	$26,375,000
Water System Revenue Bonds, Series 2010:					
Series A Bond					
Uninsured Serial Bond	2011-2012	2.00-3.00%	2.64%	$ 785,000	$ -
Serial Bond	2013-2020	3.00-4.00%	3.80%	6,140,000	5,770,000
Series B Bond					
Term Bond	2025	6.01%	6.01%	6,090,000	6,090,000
Term Bond	2030	6.45%	6.45%	7,420,000	7,420,000
Term Bond	2040	6.70%	6.70%	20,455,000	20,455,000
Total Series 2010				$40,890,000	$39,735,000
Total				$73,955,000	$66,110,000

At May 31, 2013, debt service requirements to maturity for the Bond Series 2010 and 2005 were as follows:

SERIES 2005 BONDS

Date	Principal	Interest	Total
2014	1,225,000	1,031,006	2,256,006
2015	1,265,000	986,600	2,251,600
2016	1,320,000	936,000	2,256,000
2017	1,385,000	870,000	2,255,000
2018	1,455,000	800,750	2,255,750
2019-2023	8,425,000	2,838,750	11,263,750
2024-2028	7,095,000	1,583,500	8,678,500
2029-2033	2,855,000	2,855,000	5,710,000
2034-2035	1,350,000	1,350,000	2,700,000
Total	26,375,000	13,251,606	$ 39,626,606

SERIES 2010B BONDS

Date	Principal	Interest	Total
2014	370,000	216,263	586,263
2015	375,000	205,162	580,162
2016	935,000	193,913	1,128,913
2017	965,000	161,187	1,126,187
2018	1,000,000	125,000	1,125,000
2019-2020	2,125,000	128,400	2,253,400
Total	5,770,000	1,029,925	$ 4,546,525

SERIES 2010B BONDS

Date	Principal	Interest	Gross Subsidy	Net Interest	Gross	Net
2014		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2015		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2016		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2017		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2018		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2019-2023	3,510,000	10,870,460	(3,804,661)	7,065,799	14,380,460	10,575,799
2024-2028	6,845,000	9,213,025	(3,224,559)	5,988,466	16,058,025	12,833,466
2029-2033	8,405,000	6,819,088	(2,386,681)	4,432,407	15,224,088	12,837,407
2034-2038	10,390,000	3,761,606	(1,316,562)	2,445,044	14,151,606	12,835,044
2039-2040	4,815,000	487,498	(170,625)	316,873	5,302,498	5,131,873
Total	$ 33,965,000	$ 42,227,577	$ (14,779,653)	$ 27,447,924	$ 76,192,577	$ 61,412,924

NOTE 6 – OTHER LONG-TERM LIABILITIES

Changes in long-term liabilities, other than the Bonds, were as follows:

	May 31, 2012	Addition	Reduction	May 31, 2013	Due in 1- year	Noncurrent Liability
Accrued vacation and sick leave	$818,900	$49,200	$(40,000)	$828,100	$40,000	$788,100

NOTE 7 – EMPLOYEE BENEFITS

Plan Description

The Water Authority participates in the New York State and Local Employees' Retirement System ("ERS"), a cost-sharing multiple-employer defined benefit retirement system. The ERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as sole trustee and administrative head of the ERS.

The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of their funds. The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policy

The Water Authority's employees participate in the ERS. Tier levels are dependent on date of hire and prior public service with a participating ERS agency. No contributions are required of Tier-1 employees while Tier-4 employees are required to contribute 3% of their gross earnings toward retirement benefits until they have accumulated ten years of credited service and Tier 5 employees are required to contribute 3% for the employees' entire employment. A new Tier 6 was added on April 1, 2012 which requires

various contribution percentages of gross earnings for all years of public service. These contributions are considered a reduction of taxable wages for federal income tax purposes. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The Water Authority is required to contribute at an actuarially determined rate. The Water Authority's contributions made to the System were equal to 100% of the amount required. The required contributions for the current year and the two preceding years were:

Year	Contribution Amount
2013	$ 696,900
2012	595,700
2011	452,300

Retiree Benefits

The Water Authority's Board of Directors has amended a resolution for postretirement benefits. The Water Authority has been self-funding retiree benefits and as of May 31, 2013 has deferred a liability in the amount of $1,734,981.

Accrued Vacation and Sick Leave

The Water Authority employees earn vacation leave each month at a scheduled rate in accordance with the years of service and sick leave at the rate of one day per month. The maximum accumulated sick leave is 60 days. Accumulated unpaid vacation and sick leave amounts are accrued as earned. On May 31, 2013 the liability for accrued vacation and sick days was $828,100.

NOTE 8 – NET POSITION

Net position represents the difference between assets and liabilities. The net asset amounts were:

	2013	2012
Invested in capital assets net of related debt:		
Capital assets, net of accumulated depreciation	$ 63,873,372	$ 52,433,616
Less: related debt		
Revenue bonds payable	(66,110,000)	(67,660,000)
Bond premium	(1,409,806)	(1,468,373)
Loss on defeasance of 1996 Bonds	1,201,753	1,268,613
Unspent debt proceeds in construction and reserve funds	16,838,915	26,795,244
Bond issue costs	149,559	156,374
Total invested in capital assets net of related debt	14,543,793	11,525,474
Restricted for Rate Stabilization and Customer Deposits:		
Restricted cash and equivalents	1,550,612	1,509,232
Deductions:		
Customer deposits	(990,612)	(949,232)
Total restricted for capital activity and debt service	560,000	560,000
Unrestricted	922,278	1,913,779
Total net assets	$ 16,026,071	$ 13,999,253

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

From an accrual accounting perspective, the cost of postemployment healthcare benefits, similar to the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Since adopting the requirements of GASB Statement No. 45 during the year ended May 31, 2009, the Water Authority recognized the cost of postemployment healthcare in the year when the employee services were received, reported the accumulated liability from prior years, and provided information useful in assessing potential demands on the Water Authority's future cash flows. Recognition of the liability accumulated from prior periods was phased in over 30 years, commencing with the 2009 liability.

Plan Description

Postemployment health insurance coverage is afforded under single employer defined benefit plan to the Water Authority's retired employees and their dependents in accordance with the provisions of a resolution adopted by the Water Authority's Board of Directors on September 17, 2002 and as amended November 9, 2009. Substantially all Water Authority employees may become eligible for these benefits provided the employee has a minimum of ten years full-time employment with the Water Authority, has obtained 55 years of age and has terminated employment with the Water Authority within five years from the date on which entitled to a retirement allowance from the ERS.

The Board adopted resolution and amended resolution provides eligible enrollees with postretirement medical insurance coverage, limited to the health insurance programs offered by the Water Authority to its then full-time employees, as modified from time-to-time by the Board. The Water Authority pays 60% of the cost of premium for individual coverage and 40% of the cost for dependent coverage for eligible retired employees. These benefits continue for the lifetime of the retiree.

The Water Authority provides life insurance policies, at no cost to the retiree, for individuals who were hired prior to June 1996. The life insurance benefit is $20,000 for hourly employees and $40,000 for salaried employees and is subject to age reductions set by the insurance carrier.

The number of participants as of May 31, 2013, the effective date of the annual OPEB valuation, is as follows:

Participants	Number	Average Age
Active employees	48	47
Retired employees	6	66
Total	54	

Funding Policy

The Water Authority currently pays for postemployment health care benefits on a pay-as-you-go basis.

Annual Other Postemployment Benefit Cost

For the fiscal year ended May 31, 2013, the Water Authority's annual OPEB cost (expense) of $379,457 is equal to the Annual Required Contribution. Considering the annual expense as well as the payment of

current health insurance premiums, which totaled $25,530 for retirees and their beneficiaries, and the interest earned on the net OPEB obligations of $63,380, the result was an increase in the Net OPEB Obligation of $326,534 for the year ended May 31, 2013.

The Water Authority's annual other postemployment benefit cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and Net OPEB obligation for fiscal year 2013 and 2012 were as follows:

Annual OPEB Cost and Net OPEB Obligation

	Fiscal year ending May 31,	2013	2012
A	Annual Required Contribution (ARC)	$ 379,457	$ 306,512
B	Net OPEB Obligation (NOO), beginning	1,408,447	1,152,955
C	Interest on NOO at 4.5%	63,380	51,883
D	Adjustment to ARC (NOO/17.02)	(82,752)	(67,741)
E	Annual OPEB Cost (AOC)	360,085	290,654
F	Less Amount Contributed	(33,551)	(35,162)
G	Change in Net OPEB Obligation	326,534	255,492
H	Net OPEB Obligation, Ending Balance	$ 1,734,981	$ 1,408,447

The Water Authority's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the fiscal years ended May 31, 2013, May 31, 2012 and May 31, 2011 were as follows:

Fiscal Year	OPEB Cost	Percentage of Annual OPEB Contributed	Net OPEB Obligation
May 31, 2013	$ 360,085	9%	$ 1,734,981
May 31, 2012	290,654	12%	1,408,447
May 31, 2011	232,209	11%	1,152,955

The funding status

	2013	2012
Actuarial accrued liability	$ 3,335,117	$ 2,470,292
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability	$ 3,335,117	$ 2,470,292
Funded status	0.00%	0.00%
Covered payroll	$ 3,715,880	$ 3,708,940
Unfunded actuarial liability as a percentage of covered payroll	89.75%	66.60%

In 2013, the actuarial accrued liability for active and retired employees was $2,433,861 and $901,256, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Water Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the determination of costs and liabilities are as follows:

Interest: 4.5%

Mortality: RP2000 Combined Mortality Table (Generational)

Employee Turnover: Vaughn Ultimate Table multiplied by 0.5, Percentage of Employees Terminating prior to End of Year:

Age	Rate
25	6.80%
30	5.05%
35	3.95%
40	3.25%
45	2.75%
50	2.25%
55+	0.00%

Retirement Age:Percentage of Employees Retiring Prior to End of Year:

Age	Rate
62-64	9%
65-69	20%
70+	100%

Annual Medical Premium:

	2013	2012
Pre 65 - Employee Only	$ 9,216	$ 8,553
Pre 65 - Family	20,239	18,754
Post 65 – Employee Only	4,792	5,031
Post 65 – Two Person	11,709	11,391

Medical Claims Assumption: For the valuation, 50% of the 2012 Premium and 50% of the 2013 premium was used.

Marriage Rates at Retirement: assumed 50% of active females and 50% of active males will be married at retirement, and that husbands will be 3 years older than their wives.

Medical Trend: Starts at 9.0% in 2012, decreases by 1.0% per year down to 5.0% in 2016 and beyond.

Medicare Part B: 3% annual increases.

Claims Morbidity: assumed that actual claims will be distributed according to the following table (pre-65):

Age	Relative Claims Cost
55	$11,005
60	13,134
64	15,484

Actuarial Methodologies

Actuarial Cost Method: Projected Unit Credit

The Normal Cost is derived for each active participant as the actuarial present value of the projected benefits that are attributed to expected service in the current plan year. The Normal Cost for plan benefits is the total of the individual Normal Costs for active participants.

The Accrued Liability is equal to the portion of the present value of future benefits that is allocated to years of service before the valuation date.

Amortization Method: 30 years, level dollar, open

The Unfunded Accrued Liability is amortized each year over a constant 30 year period, as a level dollar amount.

Asset Valuation Method: Market Value

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 (HCERA), which amends certain aspects of PPACA was signed into law. The new laws are expected to have a financial impact on employers who sponsor postemployment health care benefit plans and therefore may affect the GASB 45 valuation. As of the date of this report, the Water Authority could not reasonably conclude which provisions would impact the financial accounting of the plan. Upon release of further regulatory guidance, the impact of PPACA and HCERA will be appropriately reflected in the valuation.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation

The Water Authority is subject to lawsuits in the ordinary conduct of its affairs. The Water Authority does not believe, however, that any such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the Water Authority.

Risk Management

The Water Authority is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters and other risks. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Insurance

The Water Authority's commercial insurance coverage provides for virtually all risks of loss including property, liability, automobile accidents and public official's coverage. The Water Authority also carries umbrella liability insurance coverage. This coverage is comparable to that of the prior fiscal year.

Compensated Absences

The Water Authority estimates that the amount of compensated absences due within one year is $40,000.

Pollution Remediation Obligations

In adopting the requirements of GASB Statement No. 49 during the year ended May 31, 2009, it is the Water Authority's policy to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

If the Water Authority:

- Is compelled to take remediation action because of imminent endangerment,
- Violates a pollution related permit or license,
- Is named or will be named as a responsible party or potentially responsible party for a remediation,
- Is named, or will be named in a lawsuit to compel pollution remediation, or
- Commences or obligates it to remediate pollution.

As of May 31, 2013, the Water Authority has not identified any pollution remediation obligations and therefore no liability has been recorded on the Statement of Net Position.

Lease Commitments

The Water Authority had a ten-year lease for its office space, which expired in May 2006 and was extended three times, first for a period of four years ending May 31, 2010, subsequently for two years

ending May 31, 2012 and for another two years ending May 31, 2014. Rental expense under the office space lease was $264,000 for the fiscal year ended May 31, 2013. Office rentals are included in operating expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

The future minimum rental commitments under operating leases as of May 31, 2013 are $276,000, for the year ending May 31, 2014.

NOTE 12 – LEASE REVENUE AGREEMENTS

The Water Authority has several lease agreements in place with various cell phone providers for the leasing of Water Authority property to install and maintain cell phone transmission towers. These lease agreements range for a period of one year to five years and are renewable at the discretion of the cell phone providers for periods that coincide with the initial lease period. The minimum amount of lease income expected to be recognized by the Water Authority over the next remaining lease periods is summarized in the following table:

Year Ended May 31,	Amount
2014	250,843
2015	259,623
2016	269,518
Total	$ 779,984

NOTE 13 – RATE CHANGES

Under the Water Authority Charter, the Board is empowered to set rates for all its customers. The rates are to be sufficient to pay for operations, maintenance, reserves, debt service, additions, extensions and betterment of the facilities.

A summary of the annual rate changes that the Water Authority has achieved over the last ten years:

Effective June 1,	Rate change
2013	6.02%
2012	4.82%
2011	4.84%
2010	7.24%
2009	7.40%
2008	7.80%
2007	7.13%
2006	7.60%
2005	3.80%
2004	0.00%
2003	0.00%

The Water Authority passed back a Rate Stabilization Fund subsidy of $55,000 to its customers in the fiscal year ended May 31, 2009.

NOTE 14 – SUBSEQUENT EVENTS

The Water Authority evaluated subsequent events from May 31, 2013 through August 30, 2013, the date on which the financial statements were available to be issued, and determined that there were no material subsequent events.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Water Authority of Western Nassau County
Floral Park, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Water Authority of Western Nassau County, New York, as of and for the year ended May 31, 2013, and the related notes to the financial statements, which collectively comprise the Water Authority of Western Nassau County, New York's basic financial statements, and have issued our report thereon dated August 30, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water Authority of Western Nassau County's, New York's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Authority of Western Nassau County, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Authority of Western Nassau County, New York's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Authority of Western Nassau County, New York's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

TABRIZTCHI & Co., CPA, P.C.

Garden City, NY
August 30, 2013